PROPORTIONALITY IN BANK REGULATION

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STRUCTURE OF THE REPORT

(1) Analytical framework
   * scope of the PoP
   * importance of proportionality
   * legal and economic perspectives
   * potential for non-proportionality

(2) Six case studies
   * supervisory reporting
   * liquidity
   * external models
   * Governance related to risk models
   * Leverage ratio
   * corporate governance

(3) Costs and Implications for stakeholders

(4) Recommendations
   * high level
   * detailed in case studies
OPENING PERSPECTIVES

• BSG certainly not antagonistic to regulation
• BSG recognises that big changes were needed in the post-crisis era
• BSG fully recognises agencies’ commitment to proportionality
• Constructive contribution to important and topical debate:
  – perspectives of different stakeholders
OBSERVATION

• Complex concept: The *Five Pillars of Proportionality*
• Complexity
• Cumulative
• Differentiation
Mandate of Proportionality

Regulatory authorities required to be proportionate in regulation:

- Not exceed limits of what is appropriate and necessary to attain the objectives
- When there is a choice recourse must be had to the least onerous
- Disadvantages caused must not be disproportionate to the aims pursued
WHY PROPORTIONALITY IS IMPORTANT

• Costs become excessive and avoidable
• Unwarranted change in business models
• Management role usurped
• Arbitrage within the system
• Compromise competition
• Burden on small firms: entry barriers
• Wider costs on the economy
POTENTIAL FOR DISPROPORTIONALITY

• Regulation viewed as a free good
• Symbiotic relationship
• Not recognise a trade-off
• Regulatory pendulum
• Excess harmonisation
• Duplication
• Gold-plating
THE FIVE PILLARS OF PROPORTIONALITY

(1) Objectives: Cost Benefit Analysis
(2) Totality of regulation: diminishing returns
(3) Excess complexity
(4) Differentiations
(5) Materiality
Marginal cost of regulation

Marginal benefit of regulation

Total amount of regulation

Total costs and benefits

Total benefits of regulation

Total costs of regulation

Maximum net benefit

Marginal cost of regulation
EXCESS COMPLEXITY

- Costs of compliance
- Small firms
- Entry barriers
- Compliance may become superficial
- Costs of information collection and processing
- Regulatory arbitrage
- Opacity
- Difficult manage arbitrage
“The more complex the environment, the greater the perils of complex control. …..because complexity generates uncertainty, not risk, it requires a regulatory response grounded in simplicity, not complexity.”

Haldane and Madouras (2012)
RECOMMENDATIONS

- Harmonised concept of proportionality
- Flexible application
- High Level Task Force
- Semi-autonomous Proportionality Review Groups within regulatory/supervisory agencies
- Regular independent reviews of proportionality and complexity
- Consideration of totality of regulation
- Review of supervisory reporting requirements
- Competitive neutrality and entry barriers
- Apply CBA at all stages
BSG REPORT
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